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Dear Jon,

**Consultation response: Getting more out of our electricity networks by reforming access and forward-looking charging arrangements**

Drax Group is a UK-based energy company with businesses spanning generation and retail. Alongside our biomass and coal generation units, our acquisition of open cycle gas turbine (OCGT) development sites is intended to allow us to play an important role in supporting a flexible power system that can reliably support wind and solar power generation.

Our retail businesses, Haven Power and Opus Energy, are actively engaged in helping business customers with their energy needs, improving efficiency and switching to renewable products. Haven Power is the UK's 5th largest non-domestic electricity supplier by volume. Opus Energy is the UK's 6th largest non-domestic gas and electricity supplier by meter count with over 300,000 supply points.

We welcome the opportunity to respond to the consultation and believe a Significant Code Review (SCR) is appropriate to address the issues outlined in the consultation. As a member of the Access and Forward Charging Task Group, we were able to contribute to the options document and appreciate the challenging nature of the changes ahead for networks and users. Our detailed answers to the consultation can be found in Appendix 1.

The consultation outlines a number of desirable features and outcomes of the future network access and charging regime. However, to support the evolution of the charging framework both within and out with the proposed SCR, it is important that the regulator clearly identifies the high-level principles that underpin future GB network arrangements.

As a minimum we would expect such principles to include:

- Any reform to charging arrangements should clearly identify whether the charge(s) in question aims to incentivise behaviour or act as a pure post-event cost recovery mechanism
  - If incentivising behaviour, then the charge must be cost reflective and reduce perverse incentives and distortions to competition
  - If a post-event cost recovery tool, then the charge should be predictable and enable an efficient pass through of costs to consumers
- All charging and access arrangements must be clear, proportionate, predictable and fair in their application to new and existing users of networks



- Arrangements must ensure a level playing field between transmission connected users, distribution connected users and interconnector users
- Unbundling of network businesses must be pursued at the distribution and transmission level to promote competition and maintain market integrity – no network owners should be able to own or operate storage/generation assets, or engage in the provision of support services to their own or other networks
- Proposals should not only consider the impact on consumers today, but also the needs of consumers in the future

If there is a clear understanding of the principles, then we believe Ofgem can define a narrow scope for the SCR. Without clear and commonly understood principles, there is an increased risk of inefficient, or at least sub-optimal, outcomes.

We hope you find our views useful in progressing this important work. If you have any questions, please don't hesitate to get in touch.

Yours sincerely,

*Submitted by email*

Paul Youngman

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## **Appendix – Drax Group response to the consultation questions**

**Question 1: Do you agree with the case for change as set out in chapter 2? Please give reasons for your response and include evidence to support this where possible.**

We agree that Ofgem have clearly identified the need to change the arrangements for Distribution Network Access and Charging. Customer requirements have changed in recent years with increased penetration of Distributed Generation (DG), predominately low carbon embedded generation. As shown in the Baringa report, access to Distribution Network capacity for additional connections is increasingly constrained. Going forward the potential growth of electric vehicle adoption, heat pumps and other low carbon technologies (LCT) presents new challenges. Corresponding to these new demand side drivers the arrangements for access and charging for distribution networks need to adapt.

Drax contributed to the work of the access and forward charging task group that developed detailed options that can now be considered and taken forward through the Significant Code Review. We were mindful in the task group that the current system of access and charging for distribution networks is not delivering a consistent basis on which to base future investment decisions either for investors in DG, LCT or networks. We agree that this SCR is timely and should be clearly focussed on the delivery to the consumer of an efficient distribution network that enables the consumer to adopt and connect new LCT. Charging and access rights also need to be carefully designed to ensure that DG can have certainty of connection and enduring capability of the network. The charging framework must also provide cost reflective charging to enable investors to make considered long term choices as to where to locate and operate their plant.

**Question 2: Do you agree with our proposal that access rights should be reviewed, with the aim to improve their definition and choice? Please provide reasons for your response and, where possible, evidence to support your views.**

Yes, we agree with Ofgem's clear direction to review the future access arrangements and build on the work of the Access and Forward Charging Task Force. The Baringa review highlights the barriers to equitable access and deployment that are acute within some distribution networks. These current concerns are likely to become more visible to consumers in the future, with higher EV penetration and a greater reliance on distributed generation. Improving access rights and having clear and consistent definitions and choices at distribution networks should enhance, not supplant, existing agreed capacity rights.

**Question 3: Specifically, do you have views on whether options should be developed in the following areas as part of a review? Please give reasons for your response, and where possible, please provide evidence to support your views:**

- a) Establishing a clear access limit for small users, with greater choice of options (as considered under b) and c) below) above a core threshold – do you agree with our proposal in paragraphs 3.5-3.10 that this should be considered? Do you have views on how a core threshold could be set?

Ofgem are right to examine the future requirements for small and domestic customers, and we see merit in exploring how thresholds can be determined that drive appropriate investment by the networks. This is an important assessment to get right as future network constraints could hinder the adoption of LCT. Given that the assessment is aligned to the networks, we do not believe it is appropriate for a principles-based obligation to be applied to suppliers to determine this. It may be more appropriate for Ofgem to bring together both network and supplier views and data to develop a consistent and agreed assessment of consumer needs.

**b) Firm/non-firm and time-profiled access – do you agree with our proposal outlined in paragraphs 3.15-3.21 that these options should be developed?**

There is merit in exploring these options though larger DN connections predominately require firm connections to secure their investment in assets or as a requirement of capacity market contracts. If these parties' firm rights are breached there should be financial compensation.

**c) Duration and depth of access, discussed in paragraph 3.25-3.32 - would these options be feasible and beneficial?**

We agree that duration and depth of access at distribution network level should be considered. As identified in the consultation, we would expect that the appetite from developers for short term access rights may be limited as developers require the certainty of longer term and evergreen access rights. We would expect there to be less demand from users for shorter term access rights, though this would be useful to explore in the SCR.

**d) Should options be developed at transmission or distribution in particular, or are both equally important – as discussed in this chapter?**

Given the scale and scope of the challenge we believe that the options at distribution level should be the primary concern. The issues identified in the Baringa report will only become more acute with changing demand patterns and further decentralisation of generation. The framework to secure a connection to a distribution network would preferably align with those available at transmission level, particularly with regards to financially firm connections and cost-reflective charges.

**Question 4: Do you agree with the key links between access and charging we have identified in table 1? Why or why not? Do you think there are other key links we have not identified? Where possible, please provide evidence to support your views.**

Yes. We agree that the table is useful in describing the expected charging outcomes based on characteristics of access.

**Question 5: Do you agree with our proposal that targeted areas of allocation of access should be reviewed? Please give any specific views on the areas below, together with reasons for your response. Where possible, please provide evidence to support your views:**

**a) Improved queue management as the priority area for improving initial allocation of access, as outlined in paragraphs 3.41-3.44?**

Transparent distribution network queue management is a desirable outcome for the SCR. We agree with Ofgem that longer term a connect and manage approach could be adopted with financially firm access rights for large distribution network connections. This could be considered as part of the SCR, and integrated with a single market to manage network constraints consistent with the options developed from the open networks work currently undertaken by ENA.

**b) Not to consider the potential role of auctions for initial allocation of access as part of a review at this time, as discussed in paragraph 3.44?**

We agree with Ofgem's decision to not include auctions as part of the review. We do not believe that auctions or the use of targeted auctions where there are significant connection queues would lead to desirable consumer outcomes. We are also mindful of the Access and Charging task force work in this area that did not conclude positively on Auctions as an effective or desirable tool. In our view the price of network entry capacity should be based on shallow cost reflective charges, not based on the scarcity value of a product provided by a regulated monopoly.

**c) To review the areas outlined in paragraphs 3.45-3.48 to support re-allocation of access?**

We believe there is a marginal benefit in designing appropriate mechanisms for distribution capacity users within the same network to exchange rights to access. We are not convinced that Use-it-or-lose-it (UIOLI) or Use-it-or-sell-it (UIOSI) obligations are necessary unless hoarding of capacity rights is a primary contributor to restricting access to other users. Hoarding of capacity rights could (in theory) be an issue in some areas, though no data was presented during the work of the Access and Forward Charging Task Force to identify it as significant.

**Question 6: Do you agree that a comprehensive review of forward-looking DUoS charging methodologies, as outlined in paragraphs 4.3-4.7, should be undertaken? Please provide reasons for your response and, where possible, evidence to support your position.**

We agree that there needs to be a comprehensive review of forward-looking DUoS charging methodologies to provide clearer signals for investment in distribution networks. For users of distribution networks, it is important that charging methodologies are both transparent and harmonised. We also support Ofgem's view that forward-looking charges could reduce distortions especially in areas of constraint.

Consideration should be given to the benefits that distributed energy storage could have in relieving network constraints and how charging arrangements could facilitate the efficient temporal and locational flows of energy across networks in preparation for periods of high demand.

Ofgem should be mindful of potential interactions with the Targeted Charging Review which focusses on the residual charges (which are purely a cost recovery mechanism), and the ENA's Open Networks Project which is examining the future market to manage network constraints.

**Question 7: Do you agree that the distribution connection charging boundary should be reviewed, but not the transmission connection boundary? Please provide reasons for your response and, where possible, evidence to support your position.**

We agree that the distribution connection charging boundary should be based on a shallow methodology, as the current process places most of the reinforcement costs on the connecting party even though expansion of the network may benefit other users. This acts as a barrier to entry for new

connections. Over the longer term, the work of the Open Networks Project should develop the market to manage constraints, and the evidence for networks to reduce costs by improving or expanding their networks, where it is efficient to do so. We have not seen evidence to suggest that the transmission connection boundary should be altered or that this would drive substantive benefits for consumers.

**Question 8: Do you agree that the basis of forward-looking TNUoS charging should be reviewed in targeted areas? If you have views on whether we should review the following specific areas please also provide these:**

- a) Do you agree that forward-looking TNUoS charges for small distributed generation (DG) should be reviewed, as outlined in paragraphs 4.19-4.23?**

We agree with the proposal to review forward-looking TNUoS charges for small distributed generators and the impacts on whole system costs. We agree with Ofgem that there may be perverse incentives that distort competition between generators connecting at different parts of the network.

- b) Do you consider that forward-looking TNUoS charges for demand should be reviewed, as outlined in paragraphs 4.24-4.27? Please provide reasons for your response and, where possible, evidence to support your position.**

We agree that charging demand customers based on Triad is introducing uncertainty as Triad is becoming more difficult to predict and may not align with periods of network constraint. We also agree that the current charging basis incentivises on-site generation, which drives additional distortions that lead to higher system costs and impacts on consumers' bills.

**Question 9: Do you agree that a broader review of forward-looking TNUoS charges, or the socialisation of Connect and Manage costs through BSUoS at this time, should not be prioritised for review? Please provide reasons for your response and, where possible, evidence to support your position.**

Whilst not part of the Significant Code Review process, we agree that the BSUoS issues are a high priority concern for market participants. Drax raised CMP 250 in August 2015 to address BSUoS concerns – it is currently with the Authority for a decision following approval at the code panel. We believe Ofgem must clearly articulate the key principles that should apply to charging arrangements to ensure common understanding across market stakeholders.

Currently there are a significant number of charging issues being addressed by market participants through the appropriate open code governance procedures. We do not believe that there would be any efficiency gained by progressing these under the SCR. The SCR is correctly focussed on access and charging arrangements within electricity distribution networks.

However, efficiency could be gained from Ofgem clearly articulating the strategic direction and appropriate charging principles that should apply to charging within and beyond the SCR. Market participants will then be empowered to appropriately assess specific issues relating to Use of System charging and raise proposals that are consistent with the strategic direction through the usual open governance channels. This would avoid wasted effort.

**Question 10: Do you agree that there would be value in further work in assessing options to make BSUoS more cost-reflective, and if so, that an ESO-led industry taskforce would be the best way to take this forward?**

We remain unconvinced that a “cost reflective” BSUoS charge is the right way forward. BSUoS is an ex-post residual charge that aims to socialise the cost of maintaining security of supply to the benefit of all users. Moving from socialisation to a seemingly arbitrary “targeted” charge could potentially further distort the cost base of service providers and have unintended consequences on participant behaviour.

That said, there is value in reviewing the different elements of BSUoS, the services they relate to and the benefits/impacts those service have on the system and different users. This will help inform the debate on BSUoS allocation and could be performed in parallel with current and future modifications raised via the open governance route.

We also see merit in the SCR examining the impact on electricity storage deployment and the potential benefits in relieving network constraints. Use of System charges at distribution level can either incentivise deployment, or act as a barrier to uptake. There needs to be consideration of the locational and temporal effects of charging to create the right signals to facilitate electricity storage. Ideally charging and access arrangements should not act as a barrier to facilitating energy flows within, and across, networks. Enabling the transfer of energy to storage when networks are underutilised, for withdrawal when the networks require it, could result in benefits to consumers.

**Question 11: What are your views on whether Ofgem or the industry should lead the review of different areas? Please specify which of SCR scope options A-C you favour, or describe your alternative proposal if applicable. Please give reasons for your view.**

We have already highlighted the desirability of Ofgem articulating the principles related to charging. With this in place our preference would be to have a clearly focussed and targeted SCR that can deliver within clear timescales. This would be best achieved by following the narrow approach. This would include: a review of options to improve the definition and choice of access rights for small users; a review of forward-looking DUOS charging arrangements; and a focussed review of forward-looking TNUoS charging arrangement. Notwithstanding our preference for the narrow approach, it may be more comprehensive and coherent to include reviewing the definition and choice of access rights for larger users (the moderate approach) within the SCR if this did not impinge upon delivery timescales.

**Question 12: Do you agree with our proposal to launch an ‘Option 1’ SCR for areas of review that we lead on? Please give reasons for your view.**

Yes. Enabling Ofgem to direct licensees to raise modification proposals is appropriate for an SCR.

**Question 13: Do you agree with the introduction of a licence condition on the basis described in paragraphs 5.11 and 5.12 and Appendix 5? Why or why not? Do you have any comments on the key elements set out in table 7 of Appendix 5a, or consider there are any other key elements which should be included? Please give reasons for your view.**

We do not think that the licence condition should be utilised in this way. Firstly the scope of the conditions outlined in section 4 of table 7 neither appropriately defines the issues to be addressed nor the parties to be engaged in developing the solution, other than obligated licensees. Additionally, the timescales appear to be very challenging to achieve for the areas that fall outside of the SCR. We would be concerned if the solution developed proved to be sub-optimal for network users due simply to the time constraints.

**Question 14: Do you have any comments on the draft wording of the outline licence condition included at Appendix 5b? Please give reasons for your view.**

As above we do not think that the licence condition is an appropriate method to progress the issues outside the scope of the SCR. We have concerns with the delivery dates in 1.9 as stated above. We also have concerns that the quality of the impact assessments presented as part of any interim or conclusions document are not defined to any relevant standard (1.5(c)). The obligations to engage with market participants appear insufficient, given the potential impact of any change, and could foreclose industry engagement in developing solutions.

**Question 15: What are your views on our indicative timelines? Do you foresee any potential challenges to, or implications of, the proposed timelines and how could these be mitigated?**

There needs to be clarity between processes that are either inside or outside of the SCR to ensure that there is a co-ordinated approach. As highlighted in our cover letter, we believe Ofgem should articulate the principles to which future charging arrangements should meet. Without this there could be unintended consequences between modifications raised to meet the immediate timelines and the package of reform being developed by Ofgem through the SCR.

**Question 16: What are your views on our proposals for coordinating and engaging stakeholders in this work?**

This is a complex and significant area of work and will require significant co-ordination by Ofgem, DNOs and the ESO to engage the wider set of stakeholders. The CFF has been an effective forum for wider stakeholders to receive updates and drive discussions. Future CFF task forces may also be useful in driving detailed creation of options and engagement between all stakeholders and should be as inclusive as possible.